



SOUTHWEST VIRGINIA HIGHER EDUCATION CENTER

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2019

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- TABLE OF CONTENTS -

	<u>Pages</u>
REVIEW LETTER	1-5
AGENCY RESPONSE	6-7



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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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August 9, 2019

David Matlock, Executive Director
Southwest Virginia Higher Education Center
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Abingdon, Virginia 24210

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 6, 2019, for the **Southwest Virginia Higher Education Center** (Higher Education Center). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Higher Education Center is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for Higher Education Center. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies, only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of the Higher Education Center’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- The University of Virginia (University) provides administrative support for the Higher Education Center according to the University’s policies and procedures. However, the Higher Education Center does not have documented policies and procedures for processes the

University does not perform on the Higher Education Center's behalf. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require agencies to maintain their own internal policies and procedures approved by management. The Higher Education Center should develop its own internal procedures for processes the University does not perform on the Higher Education Center's behalf and update these procedures regularly.

- The Higher Education Center had an outdated Memorandum of Understanding (MOU) with an academic partner, which was still being used as the basis for an agreement at the time of our review. Operating under an expired agreement risks allowing partners to question or challenge the payment or terms of the agreement. It also presents the risk of misunderstanding as to the responsibilities of each party. Additionally, a regular review of agreements allows the Higher Education Center to update terms as its needs change. The Higher Education Center should regularly review and update MOUs as they reach their expiration dates and re-visit the terms to ensure they are meeting the needs of the Higher Education Center.
- The Higher Education Center does not have a documented process for reviewing financial information submitted by the University on the Higher Education Center's behalf. The University prepares and sends submissions to Accounts disclosing the financial position and activity of the Higher Education Center, but the Higher Education Center does not review this information for accuracy or completeness. The State Comptroller's Directive 1-18 states that each institution is responsible for ensuring submissions provided to Accounts result in complete and accurate information. The Higher Education Center should periodically review submissions prepared on its behalf to ensure accuracy and completeness.
- The Higher Education Center does not meet the minimum requirements of Accounts' ARMICS standards. We noted the following areas where the requirements were not met:
 - While the agency is completing both agency-level and transaction-level risk assessments, these risk assessments do not include all of the required items including assessing fraud risks; analyzing strengths, weaknesses, opportunities and threats; as well as sufficient documentation of tests performed with the related results.
 - The Higher Education Center submits an ARMICS certification letter to the University who acts as the Higher Education Center's fiscal agent instead of directly certifying to Accounts. Topic 10305 of the CAPP Manual as well as the Comptroller's Directive 1-18 from Accounts require each agency head to annually certify the effectiveness of internal controls directly to the Comptroller. As the Higher Education Center is a state agency, the executive director should certify the Higher Education Center's successful completion of ARMICS requirements directly to Accounts.

- The Executive Director did not complete the mandatory Agency Head ARMICS Training as prescribed by a memorandum from the State Comptroller dated February 28, 2019. This memo requires each agency head to complete the training on ARMICS by April 30, 2019. The Higher Education Center's Executive Director should complete this training and ensure compliance with this memo.

The Higher Education Center should enhance its ARMICS program and documentation to ensure all of the required items are addressed.

- The Higher Education Center performs an annual review of employees' spending limits for travel and expense cards. However, the Higher Education Center did not maintain documentation of its most recent review. University of Virginia Policy FIN – 044: Use of the University Travel and Expense Card, requires the Higher Education Center to review spending limits at least annually to ensure they are appropriate. The Higher Education Center should maintain documentation of the annual review, such as signature and date, as evidence to support compliance with this requirement.
- The Higher Education Center does not meet all requirements of the Commonwealth's Information Security Standard SEC 501 (Security Standard). We noted the following instances where the Higher Education Center is not in compliance with the Security Standard:
 - The Higher Education Center has not updated its disaster recovery plan to reflect changes in key personnel. Section CP-1-COV-2 of the Security Standard, requires "periodic review, reassessment, testing, and revision of the disaster recovery plan to reflect changes in mission essential functions, services, IT system hardware and software, and personnel." The Higher Education Center should update the disaster recovery plan regularly to ensure compliance with this requirement.
 - The Higher Education Center conducts quarterly system access reviews and annual awareness security trainings, but maintains no documentation of completed reviews or trainings. Sections AC-2 and AT-2, respectively, of the Security Standard require agencies to perform each of these functions at quarterly and annual frequencies. The Higher Education Center should retain documentation related to system access reviews and security awareness trainings as evidence of compliance with these requirements.

- At the time of our review, the Higher Education Center was using an internet-based cash receipts log with a public interface that allowed for unauthenticated data entry and access to view the log. The Higher Education Center relies on entries to this log to record cash receipts into the University's financial system. With a public-facing portal, which allows entry into the cash receipts log, there is an increased risk of inaccurate data being entered with no way to ensure the appropriate individuals entered the transaction. With public access to view the log, this also increases the risk of exposure of potentially sensitive data related to customers' payments. During the time of our review, the Higher Education Center removed this interface from public view on the internet to resolve this issue. Going forward, the Higher Education Center should monitor who has access to the Higher Education Center's data as required by multiple sections of the Security Standard.

We discussed these matters with management on July 7, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj

August 15, 2019

Martha S. Mavredes
Auditor of Public Accounts
Commonwealth of Virginia
PO Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Southwest Virginia Higher Education Center has reviewed the results of the Internal Control Questionnaire Review conducted on 6/3/2019 – 6/6/2019. We appreciate the opportunity to strengthen controls to maintain an effective control environment and we are pleased to have an opportunity to provide our comments on the review.

The Center acknowledges and concurs with the findings of the review. Immediate steps have been taken to begin remedying these findings to bring the Center into compliance. We would like to take this opportunity to provide you with a status update on our compliance efforts.

Policies and Procedures

We acknowledge that for the history of the Center, we have relied greatly on the University of Virginia to provide administrative support according to their policies and procedures but accept that Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures Manual require agencies to maintain their own internal policies and procedures. We started the documentation process for all critical business areas earlier this month and anticipate completion within the next year.

Agreements with Other Agencies

The Center is developing processes and procedures to ensure that all partnership agreements are current. All MOUs and partnership agreements will be reviewed annually on or before October 1st of each year. We are addressing the steps necessary to make the outdated MOU current with an expected completion date of November 1, 2020.

Review of Financial Information

The Center is researching the steps necessary to ensure that the financial information submitted by the University of Virginia on our behalf is correct and prepared in accordance with CAPP Manual Topic 20905. A policy and process that documents the submissions on our behalf will be in place on or before March 1, 2020.

Agency Risk Management and Internal Control Standards (ARMICS)

The Center will enhance its ARMICS program and documentation to include all the required items noted in the review during the next ARMICS certification. The agency head will complete the training on ARMICS before November 30, 2019.

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Travel and Expense Cards

The Center will conduct an annual review of employee spending limits for travel and expense cards and maintain the documentation as evidence to support compliance. A review for 2019 has been completed with documentation retained.

Information System Security

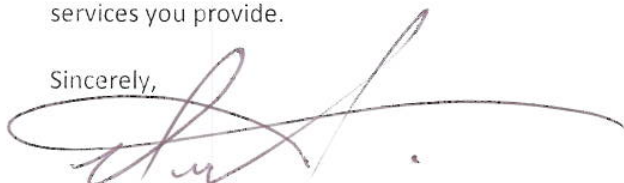
We acknowledge that the Center is not in compliance with the Commonwealth's Information Security Standard SEC 501 (Security Standard) and will take all necessary steps to ensure compliance with this requirement. The Center will make all updates to the disaster recovery plan on or before June 30, 2020. The Center will begin maintaining documentation immediately of annual security trainings as evidence of compliance with the security standard. The Center has recently become involved in discussions with the Centralized Information Security Officer (CISO) service at the Virginia Information Technologies Agency (VITA) about the possibility of using their services to address information security policies and issues.

On behalf of the Center, I would like to extend our appreciation to the audit team from APA. The team was very professional in performing their duties. The Center strives to ensure that we comply with all applicable laws, rules, and regulations in the performance of our duties. We are thankful for the opportunity to strengthen controls to maintain an effective control environment.

We appreciate the assistance of the APA as we work to carry out our mission serving the citizens of Southwest Virginia and the Commonwealth.

Please contact me if I can be of further assistance. Again, I would like to thank you and your staff for the valuable services you provide.

Sincerely,

A handwritten signature in dark ink, appearing to read 'D. Matlock', with a long horizontal flourish extending to the right.

David N. Matlock
Executive Director and Agency Head
Southwest Virginia Higher Education Center